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UNCLAS E F T O RABAT 000264

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DEPT FOR A/OPR/OS BEA CAMERON, L/BA DAVID GALLAGHER,
NEA/MAG AND NEA/EX

E.O. 12958: N/A
TAGS: [PREL](#) [PGOV](#) [EFIN](#) [SCUL](#) [MA](#)
SUBJECT: AMBASSADOR'S MEETING WITH PRIME MINISTER JETTOU ON
SCHOOL TAXES

REF: RABAT 171

11. (SBU/NF) Summary: In a meeting with Ambassador to discuss our desire to conclude a bilateral schools' agreement, Prime Minister Jettou took on board our concerns about the precarious financial situation of American schools in Morocco and committed to finding a solution to the tax conundrum they face. He stressed, however, that their situation must be regularized as the law requiring payment of payroll taxes is "clear and strict," and noted that increasing bureaucratic pressure on the schools is the result of the fact authorities had finally taken notice that they were paying some, but not all required levies. He initially suggested that a tax amnesty for amounts due for past years be coupled with agreement that the schools pay payroll taxes in the future. Ambassador strongly rebuffed this suggestion, noting that such additional levies would threaten the schools' viability. Jettou thereupon undertook to ask his financial advisers to come up with alternative solutions. End Summary.

12. (SBU/NF) A week after first speaking to the Ambassador about the subject by telephone, Prime Minister Jettou met with him on the evening of February 7 to review our proposal for a bilateral schools' agreement, which had taken on added urgency as a result of efforts by tax authorities to collect 3.75 million USD in back taxes from the Casablanca American School (CAS). Jettou noted that the question of school payment of taxes is an issue that Moroccan authorities have reviewed periodically over the years. While previously the "dossier was taken out, looked at, and put back," more recently authorities have been more aggressive in pursuing it, as they noted that some payments were coming in from the schools. That led them to question why the schools were not fulfilling all their obligations.

13. (SBU/NF) Jettou said that it is important that the school's situation be regularized; stressing that it is not a question of seeking new targets of tax revenue, but rather of ensuring that the law is followed. "The law is strict and clear," he said, and the schools should pay payroll tax for any teacher or staff member who is in country for more than 183 days. He looked coolly on suggestions that American teachers be treated in the same way as their counterparts at French and Spanish mission schools. Teachers at the latter, he argued, are government employees, and are heavily taxed in their home country. They do not pay tax in Morocco as a result of double taxation treaties. He put much emphasis on the fact that American schools are private. "The students pay and they invest," he said. He did express surprise, though, on learning that they are non-profit, and that their only source of revenue is tuition.

¶4. (SBU/NF) Jettou suggested as a solution that the schools could be subject to taxation from this year forward, and that tax officials would agree not to seek to recoup payments for previous years. (He noted that they are permitted to do so for the last four years.) Ambassador rejected this proposal strongly, stressing that requiring such payments would force the schools to close or at least drastically raise their tuition fees. With tuition already at 12,000 USD per year or higher (Jettou noted that he had put four children through the Casablanca school at this rate), any additional increase would put them out of reach of even more Moroccans, and further threaten their viability. Ambassador added that the schools do not believe they have been operating outside the law; rather they have been following the unwritten agreement that grew up surrounding them as a result of their initially closer link to the U.S. government.

¶5. (SBU/NF) Jettou took these points on board and did not repeat his initial proposal. He agreed that a solution must be found that preserves the schools and said that he would ask his advisers and the Ministry of Finance to develop something. In closing, he stressed that nothing would happen in the near term.

¶6. (SBU/NF) Comment: Jettou's initial proposal and emphasis of the need for the schools to "regularize" their situation and come into conformity with Moroccan law highlights the fact that achieving a workable settlement for the schools will not be easy, particularly given the fact that as the parent of four CAS students and a school trustee, Jettou is "inside the American school system." From our meetings with the schools and the increasing pressure on the Casablanca school in particular, however, it is also clear that the status quo is increasingly precarious. We remain convinced that the coming months offer the best window of opportunity

to achieve a settlement that will protect both American and Moroccan interests. End Comment.

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